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FIRST COUNTRY COOPERATION FRAMEWORK FOR THE FEDERATED STATES OF MICRONESIA (1997-2001)

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INTRODUCTION

1. The first country cooperation framework (CCF) for the Federated States of Micronesia (1997-2001) is the result of an ongoing consultative process between Government and UNDP. The process was initiated by a series of meetings, including the mid-term review of the first country programme (1993-1996), during which UNDP discussed with Government the changes in the programming process and concentration areas of the first CCF.

2. A major step in the formulation of the CCF was the preparation of the UNDP advisory note, through which UNDP provided the Government with its views on how it might contribute to the Federated States of Micronesia's development efforts. While the advisory note presented the perspective of UNDP, it was nonetheless prepared in consultation with the Government and non-governmental organizations. The advisory note also took into account the information in the Pacific Human Development Report (1994) and the recommendations of the Suva Declaration on Sustainable Human Development in the Pacific, the Port Vila Declaration on Population and Sustainable Development, the Programme of Action of the International Conference on Population and Development, the Copenhagen Declaration on Social Development, and the Federated States of Micronesia National Economic Summit, which was held in Pohnpei, the Federated States of Micronesia, in November 1995.

I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE

Development priorities

3. The November 1995 National Economic Summit endorsed as the principal national priority the strengthening of the economy to make it more resilient to changes in the world economy. To achieve this goal, four objectives were set: (a) to reduce reliance on external assistance; (b) to diversify sources of external funding and investment; (c) to increase the size and competitiveness of the productive sector; and (d) to ensure that all development activities are and continue to be sustainable. Strategies to achieve these objectives include restructuring and downsizing the Government, human resource and private sector development, and environmental resource management. Agriculture, marine resources, and tourism are identified as providing the best basis for development over the medium-term.

4. With the third and final step-down in funds from the Compact of Free Association between the United States and the Federated States of Micronesia occurring in 1997, the above-mentioned development priorities were formulated against a renewed sense of urgency within the Government and heightened public awareness for the need to accelerate sustainable growth. From 1997 until the year 2001, the Federated States of Micronesia will aim at fully developing the policy, constitutional and economic framework needed to sustain an acceptable standard of living for its people.

Sustainable human development

5. The Federated States of Micronesia has a dual economy: a small modern sector concentrated in the urban centres of the main islands and a traditional sector prevalent in the rural areas and outer islands. A high per capita gross domestic product (GDP) and favourable social indicators hide significant disparities between the urban areas and the outer islands and among the four states. The modern economic sector is fuelled largely by the inflow of resources from the Compact, while the traditional sector in the rural areas and outer islands relies largely upon subsistence activities in agriculture and fisheries.

Poverty

6. High government expenditures and a strong subsistence sector combined with an extended family system that promotes the ethics of "sharing and caring" have historically ensured that virtually all the people of the Federated States of Micronesia have access to the basic necessities of life. However, as income inequality increases, poverty may become a growing problem over the next decade. Even in the outer islands, communities have abandoned much of their subsistence lifestyles, and in so doing they have eroded their traditional safety nets. The impact of economic globalization on the families is also evident: juvenile delinquency, suicide, alcohol and substance abuse, domestic violence, teenage pregnancy and sexually transmitted diseases, high unemployment, and unsustainable lifestyle choices are all on the rise. The adverse impact of these social, cultural, and economic trends are borne disproportionately by women and youth.

Population and employment

7. According to the latest national census figures available, the Federated States of Micronesia has a high fertility rate, although the population growth rate has declined (from 3 per cent in the early 1980s to about 1 per cent in 1996) because of emigration. Nevertheless, reducing the fertility rate remains a national priority, since 44 per cent of the population is currently under 15 years of age. These young people will enter the labour force over the next 20 years in unprecedented numbers. While stimulating private sector development is a recognized need, even the most optimistic projections of growth in formal sector jobs fall far short of the projected growth in the labour force. Official unemployment has already reached 16 per cent nationwide and is considerably higher among the young and in rural communities. This demographic situation clearly underscores the importance of a balanced approach to development, through the simultaneous development of formal sector jobs and informal sector self-employment.

Human resources

8. Despite reasonable levels of access to education and training, due to the inadequate quality of basic and secondary education, the labour force lacks appropriate skills, resulting in substandard performance in tertiary and vocational training. Moreover, despite a large and rapidly growing labour force, there are significant gaps in skills at senior management and

professional levels and across virtually all technical and trade fields, which, in turn, fuels a demand for foreign workers, in spite of high unemployment. The Federated States of Micronesia's changing economic environment requires that a sustained effort be made to improve the quality of basic education and technical skills among workers, by upgrading the quality of education and channelling training resources into the fields of highest national priority.

Gender in development

9. Tradition in most communities has accorded women power-sharing status. With the notable exception of the people of Yap State, most communities are matrilineal, with clan membership, social status and land transmitted through the female line. Nevertheless, women lag significantly behind men in every aspect of modern development, including education, health, labour, and involvement in national and local politics.

10. Women are accorded equal rights under the Constitution of the Federated States of Micronesia. The importance of integrating women into the national and state development process has been advocated since 1988, although affirmative actions have been slow to materialize.

Environmental protection and regeneration

11. The ecosystems of the Federated States of Micronesia are vulnerable to degradation due to unsustainable development and use. Integrated planning is required to achieve the delicate balance between conservation and development. The Government accords high priority to environmental protection and regeneration. Efforts are under way to clarify the respective roles and responsibilities of various levels of government in this area, and to strengthen environment-related legislation, monitoring and public education. Sustainable land-use management is a cross-cutting issue that also requires further attention. The Federated States of Micronesia is participating in Global Environment Facility and Capacity 21 activities, as well as other global and regional initiatives in support of environmental preservation.

Governance

12. The existing system of governance has all the elements necessary to implement a reform process. It is, however, a fairly complex system, which must take into account the separation of powers between the executive and legislative branches and the authorities of the state, national, and municipal governments. A major complication in managing the country's budgets is that the state budgets constitute the dominant share of government expenditure, but are not under unified control. To change this situation, a National Economic Reform Programme has been launched to: (a) reduce the size of the Government, the level of government expenditures, and the public sector workforce; (b) reduce government subsidies on consumables; (c) stimulate productive sectors through direct and indirect support; (d) remove impediments to investment; (e) develop a suitably trained workforce; and (f) implement a coordinated public sector investment programme. To achieve these objectives, it is necessary to strengthen Government's policy analysis and implementation capacities.

II. RESULTS AND LESSONS OF PAST COOPERATION

13. External development assistance in the Federated States of Micronesia is dominated by the in-flow of funds from the Compact and other United States programmes. In 1994, Compact flows represented 57 per cent of consolidated government revenues, while total external grants accounted for 65 per cent of revenues. This high level of external funding has enabled the state and national Governments to expand their operations with little regard for domestic revenue collection. The result has been that although the Compact has substantially raised the standard of living in the Federated States of Micronesia, it has not done so in a sustainable manner.

14. The Federated States of Micronesia's request to the Asian Development Bank to establish a Consultative Group of donors reflects the importance the Federated States of Micronesia places on diversifying its sources of external assistance. The current heavy reliance on the United States makes the Federated States of Micronesia vulnerable to changes in the United States domestic and foreign policy environments. UNDP participated in the Consultative Group meetings held in Manila, the Philippines, in December 1995 and October 1996, and supports the Government's views that donors must complement, not supplant, Government's own initiatives and efforts.

III. PROPOSED STRATEGY AND THEMATIC AREAS

15. The Government and UNDP have agreed that resources for the period covered by the first CCF should be targeted at (a) job creation and sustainable livelihoods, with priority on the informal sector, and (b) governance. These areas of concentration will be complemented by subregional programme activities.

A. Job creation and sustainable livelihoods

16. The programmes in this area of concentration will aim to: (a) strengthen the capacity of the subsistence and non-formal sectors to provide a larger number of people with the basic necessities of life, commensurate with prevailing community standards; (b) ensure that the formal and non-formal sectors have equitable access to credit, marketing, skills-training, and training in entrepreneurship; and (c) ensure the environmental and economic sustainability of employment initiatives. Every effort will be made to ensure that UNDP resources have a direct impact on the well-being of the most vulnerable groups in society, such as women, youth, and people living in the more remote islands. High priority will be given to the special needs of women through a community-based approach to strengthening their participatory role in community, state and national decision-making processes.

B. Governance

17. The Government has embarked on a Public Sector Reform Programme, with support from external partners. UNDP is in an advantageous position to support and complement the Government's initiatives by helping to build the Government's

capacity to carry out a sustainable human development (SHD) situation analysis for policy formulation and implementation. This activity will have two main aims: (a) to strengthen government's policy analysis capacities, in order to minimize and mitigate negative social, cultural and environmental impacts arising from the reform process, and (b) to develop institutional capacity within the Federated States of Micronesia to monitor SHD.

C. Subregional programme

18. The subregional programme for the Pacific will consist of four programme areas: (a) development management; (b) private sector development; (c) environment and natural resource management; and (d) human resource development. All of the programme areas are relevant to the job creation and sustainable livelihoods thrust of the first CCF for the Federated States of Micronesia, and will contribute towards the broader national SHD policy framework. Specific linkages between the subregional programmes and the CCF will be identified during formulation of the subregional programmes.

19. The Federated States of Micronesia also benefits from other resources under the South Pacific biodiversity project (Pohnpei integrated watershed project), as well as resources from Capacity 21 (development of national sustainable development network) and the Poverty Strategy Initiative. It will also aim to supplement CCF resources through government cost-sharing, given the limited assignment of UNDP funds for the period covered by the first CCF.

20. It is envisaged that the overall impact of UNDP support will be the enhanced capacity of the people of the Federated States of Micronesia to adjust to the post-Compact era and to become self-reliant, through better management and utilization of human and natural resources. The communities in the Federated States of Micronesia will be mobilized and strengthened in their efforts to develop sustainable livelihoods. The impact of cooperation with UNDP will be measured by improvements in SHD indicators.

IV. MANAGEMENT ARRANGEMENTS

Execution and implementation arrangements

21. The Federated States of Micronesia aims to execute all future UNDP supported programmes nationally. Two nationally executed projects are ongoing and two workshops have been held to strengthen the capacities of national project coordinators and support institutions, especially the Department of Finance and Budget. The employment of United Nations Volunteer programme specialists will be emphasized during the period covered by the first CCF. To the extent possible, efforts will also be made to utilize the technical cooperation among developing countries and Transfer of Knowledge through Expatriate Nationals modalities to the extent possible.

Monitoring and review

22. During the period covered by the first CCF, the Government and UNDP will place greater emphasis on impact assessment. Baseline surveys will be commissioned to collect information where it does not exist, and both qualitative and quantitative indicators will be developed to establish benchmarks against which project performance will be assessed. The CCF will be monitored jointly by the Government and UNDP, as well as through monitoring visits to the country by UNDP staff at least twice a year. All ongoing projects will also be reviewed in the country every year. A triennial review of the CCF will be held in mid-1999.

Resource mobilization

23. Resource targets for the period covered by the first CCF for the Federated States of Micronesia are provided in the annex to the present document.

Annex

RESOURCE MOBILIZATION TARGET TABLE FOR THE FEDERATED STATES OF MICRONESIA (1997-2001)

(In thousands of United States dollars)

Source	Amount	Comments
UNDP CORE FUNDS		
Estimated IPF carry-over	(782)	
TRAC 1.1.1	428	Assigned immediately to country.
TRAC 1.1.2	0 to 66.7 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
SPPD/STS	80	
Subtotal	(274)[a]	
NON-CORE FUNDS		
Government cost-sharing	470	
Sustainable development funds	-	
Third-party cost-sharing	470	
Funds, trust funds and other	-	
Subtotal	940	
GRAND TOTAL	666[a]	

[a] Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: IPF = indicative planning figure; SPPD = support for policy and programme development; STS = support for technical services; and TRAC = target for resource assignment from the core.